

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY LONDON IMMEDIATE

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FOR ASST. SEC. TREASURY PARSKY

FOLLOWING REPEAT CAIRO 11598 ACTION SECSTATE NOV 14.

QUOTE: LIMITED OFFICIAL USE CAIRO 11598

E.O. 11652: NA

TAGS: USEGJC, EINV, EG, US

SUBJECT: ECON JWG MEETING: PROJECT LIST

REF: A. STATE 269416; B. CAIRO 9798; C. CAIRO 9596; D. CAIRO 9422;
E. CAIRO 7337

1. EMBASSY APPRECIATES PROJECT LIST CONTAINED REFTTEL, AND LOOKS FORWARDS TO RECEIPT OF ADDITIONAL INFORMATION ON PROJECTS AND PROBLEMS AS SEEN FROM WASHINGTON. IN ORDER TO INSURE FULLEST POSSIBLE COORDINATION OF US EFFORT, FOLLOWING COMMENTARY IS EMBASSY'S PERCEPTION OF THESE PROJECTS, THEIR PRESENT STATUS, AND OBSTACLES THEY FACE.

2. INFORMATION IS OFFERED IN OVERALL CONTEXT OF OUR COMMITMENT TO OBJECTIVES OF PROGRAM TO ENCOURAGE, FACILITATE AND SUPPORT US INVESTMENT AS IMPORTANT ASPECT OF USG GOALS IN EGYPT. EFFECTIVE IMPLEMENTATION OF THIS PROGRAM REQUIRES CLEAR APPRECIATION OF LIMITED OFFICIAL USE

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REALITIES, HOWEVER, AND AS POTENTIAL US INVESTORS HAVE FOUND

- VIRTUALLY WITHOUT EXCEPTION - PROBLEMS FACING THEM HERE ARE NUMEROUS, COMPLICATED AND NOT SUSCEPTIBLE TO SIMPLE SOLUTIONS. REPORTING ON THIS SUBJECT (REFTELS AND PREVIOUS) HAS BEEN EXTENSIVE.

3. TABER METALS. ASSURED SOURCE AND, IN PARTICULAR, ASSURED LONG-TERM PRICE OF METAL IS BASIC PROBLEM FOR THIS PROJECT. ORIGINAL APPROVAL FROM INVESTMENT AND FREE ZONE AUTHORITY BASED ON ESTIMATE PROJECT'S EXPORTS WOULD BE SUFFICIENT TO COVER ALL FOREIGN EXCHANGE COSTS. TABER REP HAS SURVEYED NEIGHBORING ARAB MARKETS AND HAS FOUND SEVERAL OTHER ALUMINUM EXTRUSION PLANTS UNDER CONSTRUCTION AND INDICATIONS ARE THAT THEY WILL RECEIVE TARIFF PROTECTION. THUS, HE CONCLUDES THAT EXPORT PROJECT FROM EGYPT MAY ONLY BE VIABLE IF CONCESSIONS ARE MADE IN PRICING OF INPUTS, PARTICULARLY ALUMINUM.

A. PROJECT PROBABLY COULD BE APPROVED UNDER IMPORT SUBSTITUTION PROVISIONS OF INVESTMENT LAW (EGYPTIAN MARKET COULD EASILY ABSORB ENTIRE OUTPUT), BUT MIN OF ECONOMY SHAFEI AND OTHER OFFICIALS OF MINISTRY HAVE ADMITTED THAT NO EGYPTIAN GOVERNMENT MECHANISM EXISTS TO GUARANTEE AVAILABILITY OF FOREIGN EXCHANGE FOR IMPORT SUBSTITUTION PROJECTS.

B. ADDITIONAL PROBLEM MAY BE DISAGREEMENTS AMONG JOINT VENTURE PARTNERS, ALTHOUGH THESE DISPUTES APPEARED TO BE PAPERED OVER WHEN TABER LAST LEFT EGYPT. TABER FELT THAT HE HAD BEEN MISLED BY HIS EGYPTIAN PARTNERS ON AVAILABILITY OF ASSURED SOURCES OF SUPPLY, AND ONE EGYPTIAN PARTNER (WHO HAS TOLD EMBOFF THAT HE HAS WITHDRAWN FROM PROJECT) DID NOT MAKE CAPITAL CONTRIBUTION AS SCHEDULED.

C. IN OUR VIEW, THIS PROJECT WILL GET OFF THE GROUND ONLY IF GOE AGREES TO LONG TERM RAW MATERIAL CONTRACT PRICES BELOW THOSE QUOTED ON LONDON METAL MARKET. AMOUNT OF DISCOUNT WILL HAVE TO BE SUFFICIENT TO ALLOW EGYPTIAN EXPORTS TO COMPETE IN ARAB MARKETS. LIKELIHOOD OF QUICK ACTION ON THIS TYPE OF PRICING DECISION BY GOE IS NOT GREAT.

4. BORDEN. PROBLEM IS INCORRECTLY IDENTIFIED. SUPPLY OF FOREIGN EXCHANGE MENTIONED REFTEL IS NOT PROBLEM; RATHER IT IS RESULT LIMITED OFFICIAL USE

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OF FACT THAT COMPANY WISHES TO ENGAGE IN DOMESTIC SALES. THUS, IT WILL NOT GENERATE FOREIGN CURRENCY AND, THEREFORE, WILL NOT BE PAYING ITS OWN WAY IN TERMS OF FOREIGN EXCHANGE. SINCE PROPOSAL RUNS COUNTER TO MAIN OBJECTIVES OF INVESTMENT LAW (WHETHER THEY ARE RIGHT OR REASONABLE OR JUSTIFIABLE IS NOT AT ISSUE), BORDEN IS UNLIKELY TO GET ASSURANCES FROM GOE THAT IT CAN REPATRIATE PROFITS AT ALL, LET ALONE AT OFFICIAL RATE OF EXCHANGE.

A. GOE HAS ENUNCIATED BASIC PRINCIPLES OF OPEN DOOR CLEARLY AND OFTEN, AND THEY INCLUDE SELF SUFFICIENCY IN FOREIGN EXCHANGE, UNLESS PROJECT IS FOR IMPORT SUBSTITUTION AND HAS MAJOR SIGNIFICANCE TO NATIONAL ECONOMY (ART 22, LAW 43). BORDEN, LIKE MANY OTHER COMPANIES INTERESTED IN DOMESTIC MARKET, IS UP AGAINST NON-AVAILABILITY OF FOREIGN EXCHANGE; EXCHANGE RATE IS SECONDARY QUESTION. WHILE WE ARE PREPARED TO CONSIDER UTILITY OF URGING GOE TO MAKE EXCEPTION FOR THIS PARTICULAR PROJECT (OR PERHAPS ONE WITH SIMILAR PROBLEM THAT MIGHT MAKE A MORE USEFUL CONTRIBUTION TO ECONOMY) FOR PURPOSE OF GETTING AT LEAST ONE INVESTMENT GOING, FACT THAT IT RUNS COUNTER TO GOE'S OWN ASSESSMENTS OF WHAT IS WANTED MUST BE BORNE IN MIND.

6. GOODYEAR.

A. PROBLEM IS ONLY PARTIALLY IDENTIFIED. WHILE DISPUTE OVER EQUITY IS PROBLEM ON SURFACE, UNDERLYING FACT THAT COMPANY WISHES TO SELL MAJOR SHARE OF PRODUCTION IN DOMESTIC MARKET IS REAL SOURCE OF PROBLEM (SEE CAIRO 10390). SINCE COMPANY IS NOT BRINGING IN ANY NEW TECHNOLOGY, WHICH IS SECOND MAJOR CRITERION FOR IMPORT SUBSTITUTION INDUSTRIES, EGYPTIANS ARE RELUCTANT TO LET THEIR MARKET SERVE AS SOURCE OF REVENUE FOR FOREIGN COMPANY, UNLESS REVENUE SHARE ACCURATELY REFLECTS, IN THEIR VIEW, CONTRIBUTION FROM ABROAD. TIRES ARE ALREADY PRODUCED HERE AND GOODYEAR'S CONTRIBUTION IS ADDITIONAL CAPACITY. WHILE EGYPT WELCOMES INPUTS, LETTING HALF OF PROFIT FROM DOMESTIC OPERATION BE USED FOR TRANSFER ABROAD IS SOMETHING THEY ARE EVIDENTLY UNWILLING TO ACCEPT.

B. THIS PROJECT MIGHT BE BETTER SUITED FOR USE AS TEST CASE OF EGYPTIAN INTENTIONS THAN BORDEN, WITH CAVEIT THAT IT MAY TAKE CONSIDERABLE PRESSURE TO GET PM, SHAFEI AND OTHERS TO BACK DOWN ON THEIR ANNOUNCED POSITIONS. IF SUCH AN LIMITED OFFICIAL USE

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EFFORT IS UNDERTAKEN AND IS SUCCESSFUL, WE MUST BE ABSOLUTELY CERTAIN GOODYEAR WILL CARRY THROUGH WITH PROJECT, SINCE OTHERWISE OUR RELATIONS WITH GOE WILL BE SEVERELY STRAINED.

7. INTERNATIONAL TANK TERMINALS. PROBLEM AS STATED IS CORRECT: GOE HAS NOT SIGNED CONTRACT. THIS PROJECT HAS BEEN ACTIVE FOR ABOUT 2 YEARS AND SERVES AS ONE OF THE BETTER EXAMPLES OF BUREAUCRATIC INERTIA-CUM-INEFFECTIVENESS IN EGYPT. THERE ARE NEW AND OMINOUS ASPECTS OF CASE, HOWEVER, THAT NEED TO BE REMEMBERED. ITT HAS INFORMED US LATEST MINSUPPLY POSITION IS HE WANTS TO PUT IT OUT TO TENDER. EGYPTIANS EVIDENTLY INTEND TO USE ITT'S PROPOSAL AS TERMS OF REFERENCE FOR INTERNATIONAL CALL FOR BIDS ON STORAGE TANKS, (SOMETHING THEY HAVE DONE BEFORE WITH OTHER PROPOSALS). IN ADDITION, WE UNDERSTAND THAT OTHER COMPANIES, INCLUDING AT LEAST ONE US FIRM, HAVE EVINCED AN INTEREST IN

UNDERTAKING SIMILAR PROJECTS.

8. LAST MENTIONED POINT DESERVES FURTHER ATTENTION. ALMOST EVERY US PROPOSAL OF WHICH WE ARE AWARE IS IN COMPETITION WITH VIRTUALLY IDENTICAL PROPOSALS FROM OTHER COUNTRIES, AND IN SOME CASES FROM OTHER US COMPANIES. GOE THUS HAS SEVERAL ALTERNATIVES FOR EACH PROJECT, A FACT WHICH MILITATES AGAINST USE OF EXCESSIVE PRESSURE IN URGING APPROVAL OF ANY SPECIFIC ONES. THIS FACT, PLUS STRONG POSSIBILITY THAT PRESENTLY UNFORESEEN PROBLEMS MIGHT EVENTUALLY CAUSE PROPOSAL TO COLLAPSE, SHOULD LEAD US TO BE CAUTIOUS IN MAKING TOO GREAT AN EFFORT TO GET EGYPTIANS TO APPROVE ANY OF ABOVE SPECIFIC PROJECTS.

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